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April 22, 2004

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: Southern Union Company, D.T.E. 04-41

Dear Ms. Cottrell:

Enclosed please find the responses of Southern Union Company ("Southern Union" or the "Company") to each of the Department of Telecommunications and Energy's First Set of Information Requests in the above-referenced proceeding, with the exception of DTE-1-11 and DTE-1-17. The Company will submit its response to these information requests as soon as they are completed.

Thank you for your attention to this matter.

Sincerely,

John K. Habib

John K. Habib

Enclosures

cc: Elizabeth Cellucci, Hearing Officer
Kevin Brannelly, Director, Rates and Revenues
Paul E. Osborne, Assistant Director of Rates and Revenues
Glenn Shippee, Rates and Revenues
Jim Powell, Rates and Revenues
Rebecca Hanson, Assistant General Counsel
Richard Marshall

Information Request DTE 1-1

Refer to pages 4 of Mr. Marshall's testimony. What date will be used by the Company to determine the number of outstanding shares to holders of record for purposes of declaring a five percent stock dividend? As part of this response, explain the conditions under which the 6.5 million shares of common stock requested in Southern Union Company, D.T.E. 04-36 would be considered outstanding for purposes of being included in the five percent stock dividend.

Response

From a market perspective, it is important for the Company to declare and issue the annual dividend in the same time frame as it has in the past because the market may react negatively to variation from past practices. As it has in the past, the stock dividend will be declared immediately following the issuance of the Department's decision in this proceeding. The Company currently anticipates that the record date will be set on a date in late June or early July and that the stock dividend issuance will occur approximately 10 days after that date. If the Company has already issued the 6.5 million shares of common stock requested for approval in Southern Union Company, D.T.E. 04-36, then these shares would be considered outstanding for purposes of being included in the five percent stock dividend.

Information Request DTE 1-2

Refer to pages 9-10 of Mr. Marshall's testimony. Please specify the number and total book value of shares presently held by each category of owner of common and preferred shares. For purposes of this response, categorize common and preferred shareholders as follows: (1) directors and officers; (2) management employees; (3) other employees; (4) institutional investors; (5) individual investors not classified above; and (6) others.

Response

The information for the common stock ownership is as follows:

	Number of Shares	Book Value
Directors and Officers	11,788,632	$153,079,000
Management Employees and Other Employees	2,780,134	36,101,000
Institutional Investors	31,561,575	409,835,000
Individual Investors (not included above)	6,707,442	87,098,000
*Others	20,052,692	260,389,000
	72,890,475	$946,502,000

* The caption "Others" includes shares held in brokers' names and shares registered in shareholders' names.

Information Request DTE 1-3

Refer to pages 9-10 of Mr. Marshall's testimony. Please specify the number and total book value of shares that the Company estimates will be held by each category of owner of common and preferred shares as of the declaration date. For purposes of this response, categorize common and preferred shareholders as follows: (1) directors and officers; (2) management employees; (3) other employees; (4) institutional investors; (5) individual investors not classified above; and (6) others.

Response

The Company cannot predict or estimate whether current holders of its stock will buy additional shares or sell shares that they currently hold between now and the actual declaration date. However, the Company does not have any knowledge of any pending changes in the stock ownership that would cause the ownership to differ materially from the current composition.

Information Request DTE 1-4

Please provide the monthly average market value of the Company's common stock from January 2000 through March 2004, along with an explanation of any significant monthly variations.

Response

The market price of the Company's common stock is affected by a broad range of factors, including investor confidence, global economic and political events, weather, gas-supply prices, customer growth, industry trends and changes in regulatory requirements. As a result, there is no way for the Company to determine the reasons for monthly variations in the price of the Company's common stock. The price that investors are willing to pay for the Company's common stock is a function of a number of factors and assumptions that are made by the investor.

The Company's monthly market value from January 2000 through March 2004 is listed below:

January 2000	$14.56	September 2001	$19.04	May 2003	$13.03
February 2000	$13.01	October 2001	$18.62	June 2003	$15.84
March 2000	$12.47	November 2001	$16.41	July 2003	$15.62
April 2000	$13.65	December 2001	$16.42	August 2003	$15.97
May 2000	$13.51	January 2002	$17.36	September 2003	$17.11
June 2000	$13.67	February 2002	$16.24	October 2003	$17.48
July 2000	$14.50	March 2002	$16.21	November 2003	$18.06
August 2000	$14.91	April 2002	$16.73	December 2003	$18.26
September 2000	$16.59	May 2002	$15.75	January 2004	$18.32
October 2000	$15.78	June 2002	$14.48	February 2004	$18.95
November 2000	$17.78	July 2002	$13.82	March 2004	$18.75
December 2000	$20.33	August 2002	$13.22		
January 2001	$19.70	September 2002	$11.63		
February 2001	$18.46	October 2002	$10.67		
March 2001	$17.87	November 2002	$12.76		
April 2001	$18.20	December 2002	$15.04		
May 2001	$18.07	January 2003	$15.24		
June 2001	$16.26	February 2003	$12.89		
July 2001	$16.91	March 2003	$12.29		
August 2001	$20.02	April 2003	$12.54		

Information Request DTE 1-5

Provide the Company's annual earnings and average annual market value per share for the period 1995 through 2003.

Response

The requested information is listed below:

Year	Annual Earnings Per Share	Average Annual Market Value Per Share
1995	$0.45	$5.6262
1996	$0.56	$7.9751
1997	$0.51	$10.7225
1998	$0.32	$11.9996
1999	$0.26	$15.9665
2000	$0.19	$14.8042
2001	$1.01	$17.3402
2002	$0.35	$17.0204
2003	$1.33	$13.2395

Southern Union Company
D.T.E. 04-41
Department of Telecommunications and Energy
Information Request DTE 1-6
April 22, 2004
Person Responsible: Richard N. Marshall

Information Request DTE 1-6

Refer to page 9 of Mr. Marshall's testimony. Please provide the total number of shares redeemed via the Stock Dividend Sales Plan for each year between 1995 and 2003, inclusive.

Response

Shares redeemed by the Company via the Stock Dividend Sales Plan from 1998 through 2003 are shown below. The information requested is not readily available for 1995, 1996 and 1997.

Year	
1998 -	6,500 shares
1999 -	4,775 shares
2000 -	4,297 shares
2001 -	99,997 shares
2002 -	1,828 shares
2003 -	180,573 shares

Information Request DTE 1-7

Refer to page 8 of Mr. Marshall's testimony. Explain the difference in the tax treatment accorded to stock dividends versus cash dividends. As part of this response, explain the term "basis" as used by the Company.

Response

Under the IRS code of regulations (the "IRC"), cash-dividend payments are treated as taxable income to the shareholder upon receipt (IRC Section 301(a),(c)). Stock dividends are not taxable to shareholders when received because stock dividends do not provide income to the recipient. (IRC Section 305(a)). When shareholders receive a stock dividend rather than a cash dividend, there is no taxable event until the shareholder decides to sell his or her shares of stock. Therefore, for the Company's shareholders there is a significant tax advantage because the shareholders have control over the 'taxable event' associated with any dividends received on the shares that they hold.

The term "basis" refers to the amount of the shareholder's investment in the shares of stock. Specifically, when the number of shares held by a stockholder are increased through the receipt of a stock dividend, the total investment originally made by the shareholder in his or her existing shares is then extended to the new shares of stock on a pro rata basis for income taxation purposes (IRC Section 307(a)). For example, a shareholder may own 100 shares of common stock purchased at $12.00 per share for a total investment of $1,200. The shareholder's "basis" is $12.00 per share. A 5 percent stock dividend would provide the shareholder with 5 additional shares. After the stock dividend, the "cost basis" of each share of stock (old and new) would be $11.43 or $1,200 divided by 105 shares. If and when the shareholder sells the shares of stock, the shareholder will pay taxes on any difference between the selling price and the then-existing "basis" in each share of stock.

The relevant sections of the Internal Revenue Code are as follows:

§ 305 Distributions of Stock and Stock Rights

(a) General rule.

Except as otherwise provided in this section, gross income does not include the amount of any distribution of the stock of a corporation made by such corporation to its shareholders with respect to its stock.

§ 301 Distributions of Property.

(a) In general.

Except as otherwise provided in this chapter, a distribution of property (as defined in section 317(a)) made by a corporation to a shareholder with respect to its stock shall be treated in the manner provided in subsection (c) .

(b) Amount distributed.

(1) General rule.

For purposes of this section, the amount of any distribution shall be the amount of money received, plus the fair market value of the other property received.

(2) Reduction for liabilities.

The amount of any distribution determined under paragraph (1) shall be reduced (but not below zero) by-

(A) the amount of any liability of the corporation assumed by the shareholder in connection with the distribution, and

(B) the amount of any liability to which the property received by the shareholder is subject immediately before, and immediately after, the distribution.

(3) Determination of fair market value.

For purposes of this section, fair market value shall be determined as of the date of the distribution.

(c) Amount taxable.

In the case of a distribution to which subsection (a) applies-

(1) Amount constituting dividend.

That portion of the distribution which is a dividend (as defined in section 316) shall be included in gross income.

(2) Amount applied against basis.

That portion of the distribution which is not a dividend shall be applied against and reduce the adjusted basis of the stock.

(3) Amount in excess of basis.

(A) In general.

Except as provided in subparagraph (B), that portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock, shall be treated as gain from the sale or exchange of property.

(B) Distributions out of increase in value accrued before March 1, 1913. That portion of the distribution which is not a dividend, to the extent that it exceeds the adjusted basis of the stock and to the extent that it is out of increase in value accrued before March 1, 1913, shall be exempt from tax.

<u>§ 307 Basis of stock and stock rights acquired in distributions.</u>

(a) General rule.

If a shareholder in a corporation receives its stock or rights to acquire its stock (referred to in this subsection as "new stock") in a distribution to which section 305(a) applies, then the basis of such new stock and of the stock with respect to which it is distributed (referred to in this section as "old stock"), respectively, shall, in the shareholder's hands, be determined by allocating between the old stock and the new stock the adjusted basis of the old stock. Such allocation shall be made under regulations prescribed by the Secretary.

Information Request DTE 1-8

Refer to Southern Union Company, D.T.E. 02-27, at 15 (2002). Provide all calculations, analysis, etc. developed to support the Company's claims in the aforementioned proceeding that its stock dividend program actually results in a lower cost of capital.

Response

Given that the Company needs to maintain an adequate level of equity in its capital structure, the issuance of the stock dividend is a less expensive means to build equity because it does not involve the cost of a public offering of new stock. However, it is not the issuance of the stock for the dividend that increases equity (because the stock dividend does not bring new equity capital into the Company). Rather, the issuance of a stock dividend allows the Company to build equity through earnings retention, which then reduces the need to issue common stock in the public markets. In this way, the Company builds equity while avoiding the need for, and cost of, a public offering, which generally is a multi-million dollar expense. Such costs include underwriters fees, brokerage commissions, SEC fees, legal expenses and documentation expenses, as well as discounts to the market price of the stock that are offered in connection with such an offering.

Information Request DTE 1-9

Please refer to Exhibit SU-3. How many common shares are represented by the "common stock held in trust" of $5,657,000 as of December 31, 2003?

Response

There are a total of 1,136,461 common shares held in trust as of December 31, 2003.

Information Request DTE 1-10

Please refer to Exhibit SU-3. How many common shares are represented by the treasury stock balance of $10,467,000 as of December 31, 2003?

Response

There are a total of 282,333 shares held in treasury at December 31, 2003.

Information Request DTE 1-12

Refer to Exhibit SU-6, at 15. Please explain the entry of $338,000 associated with "Capital lease and other due 2004 to 2007."

Response

The $338,000 balance shown under the heading "Capital Lease and Other due 2004 to 2007" represents the principal amounts owed for certain vehicles and office equipment that belong to the Company's New England Gas Company operating division. The entire balance at December 31, 2003 is composed of the principal amounts owed under leases that do not qualify for operating lease treatment under Generally Accepted Accounting Principles.

Information Request DTE 1-13

Refer to Exhibits SU-3, SU-4 and SU-5. Please update the figures in both of these exhibits using data from the Company's fiscal third quarter, ended March 31, 2004.

Response

The information requested is not currently available and will not be available for several weeks.

Information Request DTE 1-14

Refer to page 17 of Mr. Marshall's testimony in this proceeding, as well as Exhibit SU-1, at 12 submitted in D.T.E. 04-36. In terms of the net plant test, why does the Company treat the 6.5 million share stock issuance requested in D.T.E.04-36 differently than the 4.5 million share stock issuance requested in D.T.E 04-41? Why does the issuance of new shares differ from the issuance of a stock dividend in terms of its treatment under the net plant test?

Response

As discussed in the response to Information Request DTE 1-15, the net plant test established by the Department under G.L. c. 164, 16 is designed to ensure that there is no impairment of the Company's capital stock as a result of the issuance of stock and/or indebtedness. This objective is achieved where it is demonstrated that the net book value of a utility's plant in service is equal to or greater than the amount of capitalization following the issuance of common stock or indebtedness. In D.T.E. 04-36, the proposed issuance of common stock is designed to raise additional capital in an amount up to $130 million, which will result in an increase to total common stockholders' equity. Accordingly, the Company must demonstrate (using the net plant test) that the net book value of utility plant in service is equal to or greater than the total amount of capitalization that will be recorded on the Company's books following the stock issuance and the raising of $130 million in equity capital.

The purpose and function of the stock dividend is different in that the Company does not declare the dividend for the purpose of raising capital and does not derive any proceeds as a result of the issuance of stock to accommodate the stock dividend. For accounting purposes, the stock dividend operates like a stock split, and therefore, the overall common stockholders' equity does not change as a result of the issuance of a stock dividend. Because there is no change to the overall capitalization of the Company, the post-issuance calculation differs from the post-issuance calculation of a stock sale where proceeds are added to common stockholders' equity.

Information Request DTE 1-15

Refer to G.L. c. 164, § 16. Does this statute address the proposition that new common shares should be treated differently than common shares issued for a stock dividend in the calculation of the net plant test?

Response

G.L. c. 164, § 16 ("Section 16") is aimed at ensuring that a Company's fair structural value is greater than the Company's total outstanding stock and debt so that an impairment of the stock's value does not result. As it relates to the Company's calculation of net plant, the issuance of a stock dividend does not increase or change the Company's total capitalization, as would the issuance of new common shares. As described in Exhibit SU-1, the issuance of a stock dividend is similar to a stock split in that neither event affects the overall capitalization of the Company.

Please also see the Company's response to DTE 1-14.

Information Request DTE 1-16

Please prepare a table that shows the Company's debt to equity ratio for each June and December for a period corresponding to the Company's last 10 years of operations, i.e., 1994 through 2003.

Response

For purposes of this response, the Company has classified the Preferred Securities of Subsidiary Trust (i.e., the $100,000,000 of 9.48% Trust Originated Preferred Securities (TOPRS)), as long-term debt. The requested balances are listed below:

	AS OF JUNE 30		AS OF DECEMBER 31	
YEAR	DEBT	EQUITY	DEBT	EQUITY
1994	69.6%	30.4%	69.6%	30.4%
1995	71.4%	28.6%	70.3%	29.7%
1996	66.4%	33.6%	65.8%	34.2%
1997	64.5%	35.5%	63.2%	36.8%
1998	63.1%	36.9%	63.5%	36.5%
1999	62.1%	37.9%	57.1%	42.9%
2000	53.2%	46.8%	67.5%	32.5%
2001	66.5%	33.5%	68.3%	31.7%
2002	65.3%	34.7%	62.9%	37.1%
2003	72.7%	27.3%	65.8%	34.2%

Information Request DTE 1-18

Refer to page 10, lines 14-16 of Mr. Marshall's testimony. Given that the Company realizes no cash proceeds from the stock dividend issuance, please explain how the proposed issuance of 4.25 million shares of stock would serve the purposes stated in this exhibit.

Response

The issuance of a stock dividend enables the Company to retain and use earnings for the purpose of financing utility operations and repaying long-term debt, rather than paying out those earnings in the form of a cash dividend. By using earnings to finance a portion of its capital additions, the Company is able to avoid turning to the capital markets to raise the levels of debt and equity capital that would be needed if earnings were paid out in cash to shareholders each year. In addition, the Company uses earnings and cash generated by its distribution operations to repay long-term debt. When the need for new long-term debt is avoided and existing debt is repaid, the Company's equity ratios improve. Thus, the issuance of a stock dividend is an important tool for the Company in maintaining and improving cash flow and achieving appropriate balance sheet capitalization ratios.

Information Request DTE 1-19

Refer to Exhibit SU-3. Please explain the reductions $1,810,000 to premium and $2,748,000 to long-term debt for "Elimination of unregulated property from plant and capitalization." Provide the work papers showing the mathematical derivation of these entries.

Response

In reviewing Exhibit SU-3 to respond to this information request, the Company discovered two errors. First, the Company discovered that $125 million of Mandatory Convertible Securities was included both as "Long Term Debt" and as a separate line item, and therefore, was double counted in the net plant test. Second, the Company discovered that the apportionment of capitalization associated with "Goodwill" and "Unregulated Property included in Property, Plant and Equipment" were incorrect due to spreadsheet errors. The Company has corrected for these errors and has attached REVISED Exhibits SU-3, SU-4 and SU-5 for the Department's information.

The total net unregulated property of $14,535,000 should have been apportioned to premium on capital stock and long-term debt based on the percentage of equity and debt to total capitalization, as is required by Department precedent. Thus, the correct adjustments reflected on Exhibits SU-3, SU-4 and SU-5, are as follows:

(Dollars in Thousands)

	Total Capitalization		Net Unregulated Property Apportionment	
Common Stockholders' Equity	$ 946,502	27.50%	$ 3,997	27.50%
Long-Term Debt	2,495,137	72.50%	10,538	72.50%
	$ 3,441,639	100.00%	$ 14,535	100.00%

Southern Union Company
Net Plant Test
(Exhibit SU-3)

	As of 31-Dec-03		Adjustments (in 000's)		Adj Net Plant 31-Dec-03
Capitalization					
Common stockholders' equity					
Common stock, $1 par	73,182				73,182
Premium on capital stock	903,757		(176,813)	(B)	722,947
			(3,997)	(A)	
Less: treasury stock, at cost	(10,467)				(10,467)
Less: common stock held in trust	(5,657)				(5,657)
Deferred compensation plans	-				-
Accumulated other comprehensive income	(61,880)				(61,880)
Retained earnings	47,567		(47,567)	(C)	-
Total common stockholders' equity	946,502		(228,377)		718,125
Mandatory Convertible Securities	125,000				125,000
Long-term debt (including Preferred Stock)	2,109,408	N.1	(466,108)	(B)	1,632,762
			(10,538)	(A)	
Long-term debt - Current Portion	260,729				260,729
Total Long-term debt	2,370,137		(476,646)		1,893,491
Total capitalization	3,441,639		(705,023)		2,736,616
Property plant and equipment					
Plant in service	3,763,036		(16,909)	(A)	3,746,127
Construction work in progress	119,132		(119,132)	(D)	-
Subtotal	3,882,168		(136,041)		3,746,127
Less: accumulated depreciation	(698,858)		2,374	(A)	(696,484)
Net property, plant and equipment	3,183,310		(133,667)		3,049,643
Plus: Inventory	230,854		(8,173)	(E)	222,681
Total assets to be funded	3,414,164		(141,840)		3,272,324
Excess of net utility plant and other assets over total capitalization after adjustments					535,708
Net Goodwill on Books	642,921		(642,921)	(B)	

Note 1: This amount includes $230 million of preferred securities

(A) Elimination of unregulated property from plant and capitalization.
(B) Apportionment of Goodwill between debt and equity.
(C) Elimination of retained earnings from net plant test.
(D) Elimination of CWIP from net plant test.
(E) Elimination of unregulated inventories from net plant test.

Attachment DTE-1-19(b)

Southern Union Company

Post-Issuance Comparison of Net-Utility Plant (adjusted) to Total Capitalization (adjusted)

(Exhibit SU-4)

	Post-Issuance (in $000's)		Total (in 000's)
Property Plant and Equipment			
Net-Utility Plant In Service	3,746,127		
Less: Accumulated Depreciation	(696,484)		
Subtotal	3,049,643		
Plus: Inventory Held By Regulated Utilities	222,681		
Total Property Plant and Equipment	3,272,324		$ 3,272,324
Capitalization			
Common stockholders' equity			
Common stock, $1 par	79,682	(a)	
Premium on capital stock	846,447	(a)	
Less: treasury stock, at cost	(10,467)		
Less: common stock held in trust	(5,657)		
Accumulated other comprehensive income	(61,880)		
Deferred compensation plans	-		
Total Common Stockholders' Equity	848,125		
Mandatory Convertible Securities	125,000		
Long-term Debt and Capital Lease Obligation	1,521,675	(b)	
Long-term Revolving Credit Facility	400,000	(c)	
Long-term Debt - Current Portion	210,729	(b) (c)	
Total Long-term Debt	2,257,404		
Total Capitalization	3,105,529		$ 3,105,529
Net-Utility Plant in Excess of Total Capitalization			166,795

(a) Includes common stock issuance of $130 million (6.5 million shares of common stock at $20 per share)

(b) Includes repayment of $111.1 million of Long-Term Debt and $18.9 million of Current Portion of LTD with proceeds from sale of Common Stock.

(c) Assumes the $400 million revolving credit facility is fully drawn at the time of issuance and $31.9 million of borrowings under the facility were used to repay debt.

Southern Union Company

Post-Issuance Comparison of Net Utility Plant to Total Capitalization
(Exhibit SU-5)

	Post-Issuance (in $000's)		Total (in 000's)
Property Plant and Equipment			
Net-Utility Plant In Service	3,746,127		
Less: Accumulated Depreciation	(696,484)		
Subtotal	3,049,643		
Plus: Inventory Held By Regulated Utilities	222,681		
Total Property Plant and Equipment	3,272,324		$ 3,272,324
Capitalization			
Common stockholders' equity			
Common stock, $1 par	83,932	(a)	
Premium on capital stock	842,197	(a)	
Less: treasury stock, at cost	(10,467)		
Less: common stock held in trust	(5,657)		
Accumulated other comprehensive income	(61,880)		
Deferred compensation plans	-		
Total Common Stockholders' Equity	848,125		
Mandatory Convertible Securities	125,000		
Long-term Debt and Capital Lease Obligation	1,521,675		
Long-term Revolving Credit Facility	400,000		
Long-term Debt - Current Portion	210,729		
Total Long-term Debt	2,257,404		
Total Capitalization	3,105,529		$ 3,105,529
Net-Utility Plant in Excess of Total Capitalization			166,795

(a) Includes issuance of 4,250,000 shares at $1 par value for stock dividend with par value amount ($4,250,000) deducted from Premium on Capital Stock.

Information Request DTE 1-20

Refer to Exhibit SU-3. Please explain the nature of the securities that make up the "Mandatory Convertible Securities" line.

Response

The Mandatory Convertible Securities consist of 2,500,000 equity units issued on June 11, 2003, at a public offering price of $50 per unit, resulting in net proceeds to the Company, after underwriting discounts and commissions, of $48.50 per unit, or $121.3 million in the aggregate. These securities were issued pursuant to the Department's approval in Southern Union Company, D.T.E. 03-3, which granted the Company authority to issue up to $300 million in common stock and preferred securities.

Information Request DTE 1-21

Refer to Exhibit SU-3. The Company reports a goodwill balance as of December 31, 2003 of $641,921,000. In Southern Union Company, D.T.E. 03-64 (2003), the Company's response to RR-DTE-1 at 1 also indicates a goodwill balance as of June 30, 2003 of $641,921,000. Please explain why the goodwill balance remains unchanged over this period of time.

Response

Effective July 1, 2001, the Company adopted *Goodwill and Other Intangible Assets*, which was issued by the FASB in June 2001. In accordance with this Statement, the Company has ceased amortization of goodwill. Goodwill, which was previously classified on the Consolidated Balance Sheet as additional purchase cost assigned to utility plant and was amortized on a straight-line basis over forty years, is now subject to at least an annual assessment for impairment by applying a fair-value based test. Accordingly, this amount may remain the same from year to year.

Information Request DTE 1-22

Refer to Exhibit SU-3, as well as Southern Union Company, D.T.E. 03-64, at 10-11 (2003). In D.T.E. 03-64, the Department adjusted the Company's plant and capitalization accounts for capitalized leases. Please explain why the Company did not adjust its plant accounts for capitalized leases in this proceeding.

Response

The Company did not adjust its plant accounts in its filed exhibits for capital leases because the amount is de minimis, i.e., $338,000, and therefore would not affect the outcome of the net plant test due to rounding. See Exh. SU-5, at 15.

Information Request DTE 1-23

Refer to Exhibits SU-3, SU-4 and SU-5. Please recalculate these exhibits based on the assumption that the proposed common stock dividend of 4,250,000 shares was declared on December 31,2003. For purposes of this calculation, please assume a market value for the common stock of $20 per share.

Response

Attached are Exhibits SU-3 and SU-4 calculated with the requested assumptions. Exhibit SU-5 is no longer applicable because the post stock dividend issuance adjustments reflected on the original SU-5 are incorporated into the revised SU-3.

When a company declares a stock dividend, Retained Earnings are reduced even though a cash payment is not made. However, with a stock dividend, there is no change to Common Stockholders' Equity, because the journal entry that reduces Retained Earnings also increases the Common Stock, $1 Par and Premium on Capital Stock (in combination), by the amount of the reduction to Retained Earnings. As a result, there is no net change in the Common Shareholders' Equity.

In this example, the Company has retained earnings of $47,567,000 at the end of December 31, 2003 and declares a 4,250,000 share stock dividend worth $20.00 as of the declaration date.

Although the market value of the 4,250,000 shares of common stock would be $85 million on the declaration date, the total amount of Retained Earnings ($47,567,000) would be reduced to zero and reclassified as Common Stock, $1 Par Value ($4,250,000) and Premium on Capital Stock ($43,317,000). Once again, the overall level of Common Stockholders' Equity would remain the same.

It should be noted that the fact that the common stock shares have a market value of $85 million in comparison to the $47.6 million in retained earnings does not mean that the Company is "paying out" more than it has earned in the year. The stock dividend is not a payment to shareholders, as is a cash dividend. Nor is the Company raising capital when it issues the stock dividend. The capitalization of the Company is not expanded or increased as a result of the dividend distribution. Thus, the stock dividend effectively represents a "stock split" in that the shareholder continues to hold the same ownership share in the Company, albeit spread across additional shares. If the shareholder held 100 shares with a book value of $10/share before the stock dividend, he or she will hold 105 shares with a book value of $9.52/share after the stock dividend. Accordingly, the fact that the market value of the stock is greater than the amount of retained earnings has absolutely no impact on shareholders, customers or the financial health of the Company. It is only relevant to the determination of the level of Retained Earnings that are reclassified within the category of Common Stockholders' Equity.

Attachment DTE-1-23(a)

Southern Un'on Company
Net ' 'est
(Ext. J-3)

	As of 31-Dec-03	Declaration of Dividend		Other Adjustments		Adj Net Plant 31-Dec-03
			(in 000's)			
Capitalization						
Common stockholders' equity						
Common stock, $1 par	73,182	4,250	(A)			77,432
Premium on capital stock	903,757	43,317	(A)	(176,813)	(C)	766,264
				(3,997)	(B)	
Less: treasury stock, at cost	(10,467)					(10,467)
Less: common stock held in trust	(5,657)					(5,657)
Deferred compensation plans	-					-
Accumulated other comprehensive income	(61,880)					(61,880)
Retained earnings	47,567	(47,567)	(A)	-	(D)	-
Total common stockholders' equity	946,502	-		(180,810)		765,692
Mandatory Convertible Securities	125,000					125,000
Long-term debt (including Preferred Stock)	2,109,408		N.1	(466,108)	(C)	1,632,762
				(10,538)	(B)	
Long-term debt - Current Portion	260,729					260,729
Total Long-term debt	2,370,137			(476,646)		1,893,491
Total capitalization	3,441,639			(657,456)		2,784,183
Property plant and equipment						
Plant in service	3,763,036			(16,909)	(B)	3,746,127
Construction work in progress	119,132			(119,132)	(E)	-
Subtotal	3,882,168			(136,041)		3,746,127
Less: accumulated depreciation	(698,858)			2,374	(B)	(696,484)
Net property, plant and equipment	3,183,310			(133,667)		3,049,643
Plus: Inventory	230,854			(8,173)	(F)	222,681
Total assets to be funded	3,414,164			(141,840)		3,272,324
Excess of net utility plant and other assets over total capitalization after adjustments						488,141
Net Goodwill on Books	642,921			(642,921)	(C)	

Note 1: This amount includes $230 million of preferred securities

(A) Assumes the declaration of a 4,250,000 share stock dividend on December 31, 2003 and market value of $20 per share at declaration.
(B) Elimination of unregulated property from plant and capitalization.
(C) Apportionment of Goodwill between debt and equity.
(D) Elimination of retained earnings from net plant test no longer required.
(E) Elimination of CWIP from net plant test.
(F) Elimination of unregulated inventories from net plant test.

Southern Union Company

Post-Issuance Comparison of Net-Utility Plant (adjusted) to Total Capitalization (adjusted)

(Exhibit SU-4)

	Post-Issuance (in $000's)		Total (in 000's)
Property Plant and Equipment			
Net-Utility Plant In Service	3,746,127		
Less: Accumulated Depreciation	(696,484)		
Subtotal	3,049,643		
Plus: Inventory Held By Regulated Utilities	222,681		
Total Property Plant and Equipment	3,272,324		$ 3,272,324
Capitalization			
Common stockholders' equity			
Common stock, $1 par	83,932	(a)	
Premium on capital stock	889,764	(a)	
Less: treasury stock, at cost	(10,467)		
Less: common stock held in trust	(5,657)		
Accumulated other comprehensive income	(61,880)		
Deferred compensation plans	-		
Total Common Stockholders' Equity	895,692		
Mandatory Convertible Securities	125,000		
Long-term Debt and Capital Lease Obligation	1,521,675	(b)	
Long-term Revolving Credit Facility	400,000	(c)	
Long-term Debt - Current Portion	210,729	(b) (c)	
Total Long-term Debt	2,257,404		
Total Capitalization	3,153,096		$ 3,153,096
Net-Utility Plant in Excess of Total Capitalization			119,228

(a) Includes common stock issuance of $130 million (6.5 million shares of common stock at $20 per share)

(b) Includes repayment of $111.1 million of Long-Term Debt and $18.9 million of Current Portion of LTD with proceeds from sale of Common Stock.

(c) Assumes the $400 million revolving credit facility is fully drawn at the time of issuance and $31.9 million of borrowings under the facility were used to repay debt.

Information Request DTE 1-24

Refer to page 16 of Exhibit SU-6. Please indicate where the $252,000,000 balance of the Credit Facilities is reported on the Company's balance sheet as of December 31, 2003.

Response

The $252,000,000 balance of the Credit Facilities is reported in the "Current Liabilities" section of the balance sheet as "Notes Payable" (See page 5 of Exhibit SU-6).

Information Request DTE 1-25

Refer to page 16 of Exhibit SU-6. Please indicate where the $161,087,000 balance of the Term Note is reported on the Company's balance sheet as of December 31, 2003.

Response

The $136,087,000 balance of the Term Note is reported as "Long-term debt and capital lease obligation" on the balance sheet as of December 31, 2003 and $25,000,000 of the Term Note balance is reported in the "Current Liabilities" section of the balance sheet as "Long-term debt and capital lease obligation due within one year" (See page 5 of Exhibit SU-6).